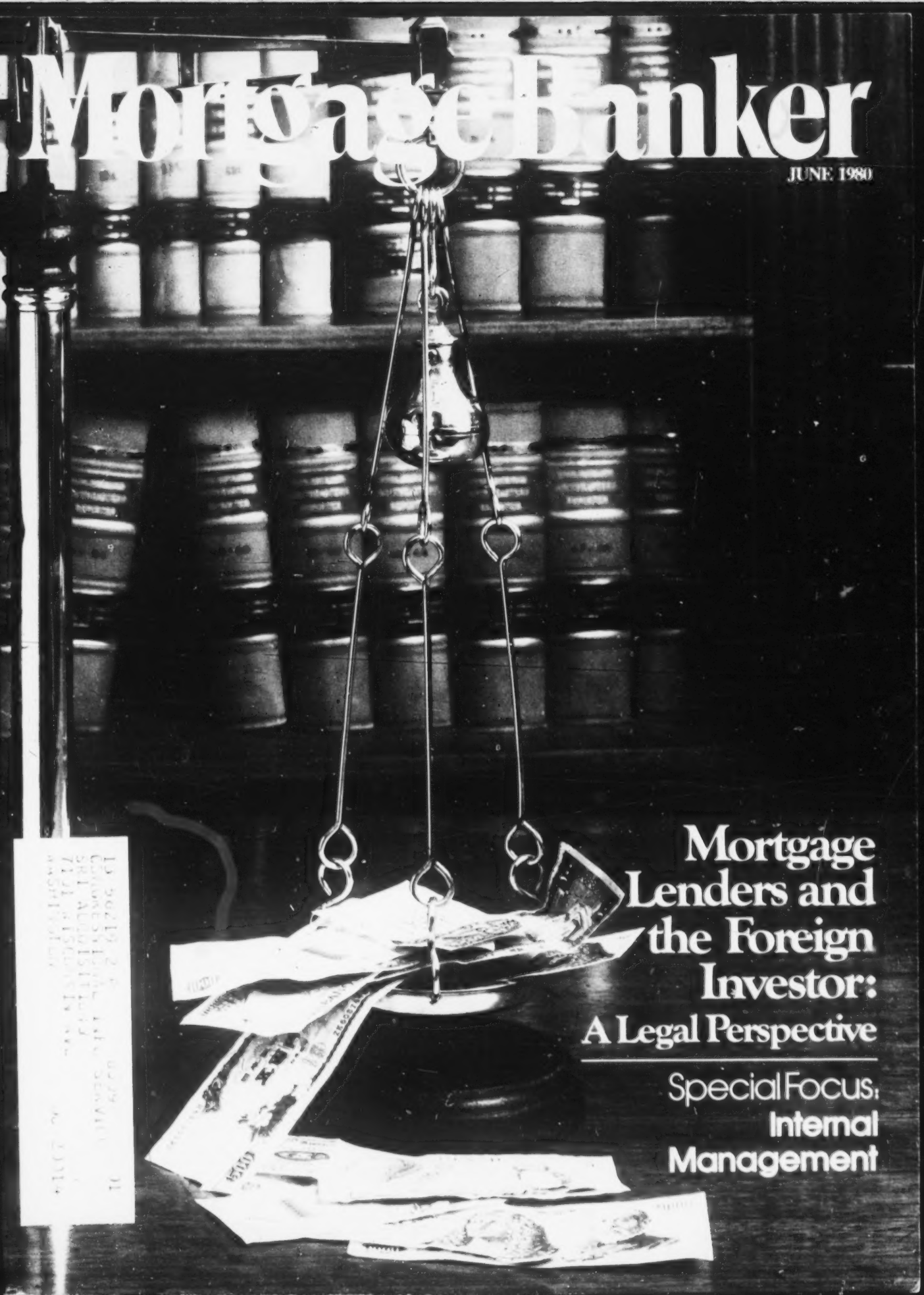
Mortgage Banker

JUNE 1980

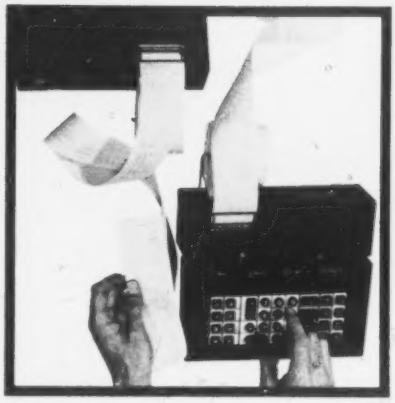


Mortgage Lenders and the Foreign Investor:
A Legal Perspective

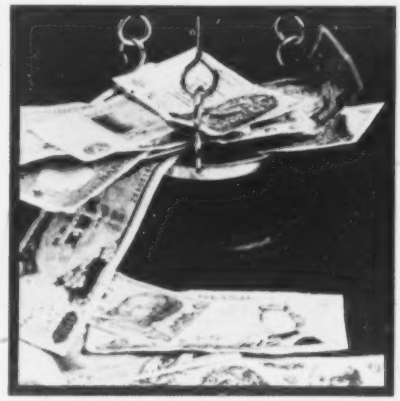
Special Focus:
Internal Management

Mortgage Banker

VOLUME 40 NUMBER 9 JUNE 1980



24 Internal Control/ Audit



43 Lenders and the Foreign Investor

46 Insuring the Income Property

Executive Editor, William E. Henry
Editor, John T. Aquino
Advertising, J. Michael McFall
Assistant Editor, Stephanie Smart
Circulation, Lygia Washington

Published monthly since 1939 by the Mortgage Bankers Association of America

Mortgage Banker (ISSN 0027-1241)
Published monthly and Copyright © 1980 by the Mortgage Bankers Association of America. Opinions expressed are those of the authors or the persons quoted and not necessarily those of the Association. Subscription rates: $10 per year, $20 for three years, or $5 each for ten or more subscriptions mailed to the same addressee. In Canada, $12 per year, foreign $14 per year. Individual copies, $2.50 each. Controlled circulation postage paid at Richmond, VA. Subscription orders should be sent to P.O. Box 37236, Washington, D.C. 20013. Letters, manuscripts, change of address, and all other correspondence should be sent to Mortgage Banker, 1125 15th Street, NW, Washington, D.C. 20005. Six to eight weeks are required for a change of address. Along with new address, send last magazine label.

Business and Editorial Offices
1125 15th Street, N.W.
Washington, D.C. 20005
(202) 785-8333

Editorial (202) 861-6560
Advertising (202) 861-6555
Circulation (202) 861-6557

The VA at 50 21

Internal Management

Internal Control/Audit: A Survey
Hyde C. Perce and Donald R. Hague 24

Diversification Planning: A Schematic
Carl J. Hanson and Lawrence J. Trautman 32

Developing a Communications Program (or You Too Can Be a Source)
Richard N. Smith 41

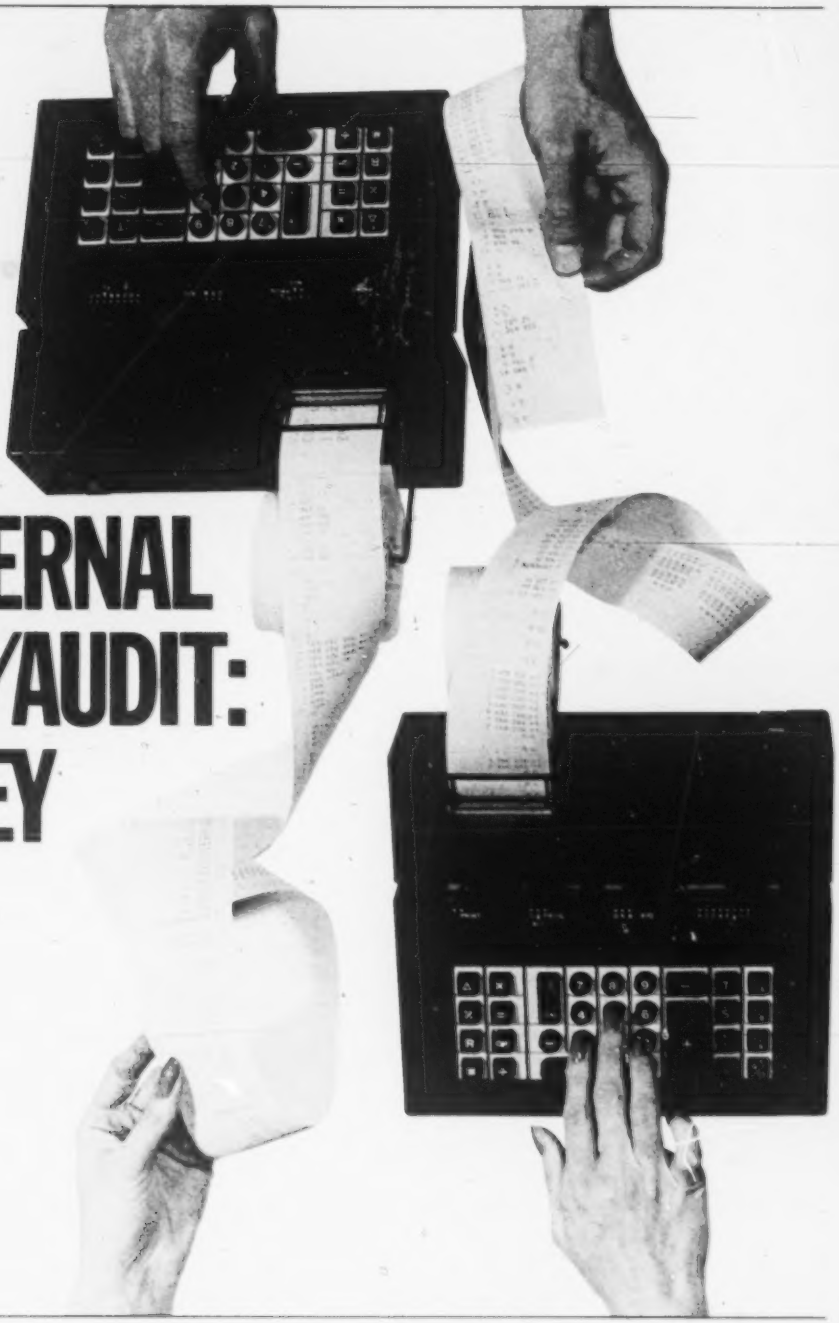
Mortgage Lenders and the Foreign Investor: A Legal Perspective
Barrett Sanders 43

Insuring the Income Property
G. Russell Sauer 46

The FmHA 502 Rural Housing Guaranteed Loan Program
Robert G. Wolff 49

DEPARTMENTS

Starts 5
Industry 7
People 17
Mortgage Market Trends 53
Books 58
The Association 63
Classified Advertisements 67
Advertisers Index 68



INTERNAL CONTROL/AUDIT: A SURVEY

Hyde C. Perce and Donald R. Hague

The topic of internal audit and control systems has been a major agenda item for American businessmen over the last several years. Reflecting society's concern that business activities be reviewed and businesspersons be held accountable for their actions, the Foreign Corrupt Practices Act of 1977 mandated that an internal audit department be part of a publicly-held company's operations. The impetus for this Act, of course, developed from political investigations connected with Watergate and the disclosure that payoffs and bribes were a frequent part of American business, especially overseas.

Mr. Perce is vice president and treasurer, mortgage loan operations, Allstate Enterprises Mortgages, Deerfield, Illinois. Mr. Hague is associate director, MBA Government Agency Relations.

Mortgage bankers have long recognized the need for internal control systems, although, because of budget constraints, they often were not able to afford the expense of a full-time auditor. Indeed, the essential nature of the business, with its dispersion of branch offices, its foundation in cash or near-cash transactions, and the need to decentralize decision authority to compete in changing markets requires a well-developed system of internal control and review to ensure the viability of the firm.

In 1976, recognizing the need for better internal control and audit systems, Jerome Howard, then-MBA president, established the Joint Committee on Internal Control. Walter B. Williams, former MBA president, served as chairman of the committee. This group was formed to

Table 1
Responses From Regular Members, by Type of Company

	Number	Percent
Independent companies	163	51
Companies affiliated with commercial banks	83	26
Companies affiliated with savings and loans	19	6
Other	41	13
Company Type Not Specified	12	4
Total—All Regular Members	**318**	**100**

Table 2
Existence of Audit Programs By Type of Company

Company Type	Total Responses	Yes	No	Percent Yes
Independent Company	175	44	131	27
Commercial Bank Affiliate	83	65	18	78
S&L Affiliate	19	11	8	58
Other	41	24	17	58
Totals	**318**	**144**	**174**	**45%**

develop educational material that would help MBA members establish internal control systems and audit functions.

The next step in MBA's efforts toward internal control and audit systems was the publication of "Internal Control for Mortgage Bankers." This 1977 monograph was written with the help of the Internal Control Subcommittee of MBA's Internal Management Committee and other interested persons.

Over the last three years, MBA has continued its efforts to encourage the development, and/or improvement of internal audit and control systems. The association sponsored seminars in both 1978 and 1979 to give members a "how-to" format for developing and improving these critical functions.

Another effort was launched last year, when the Internal Control Subcommittee of MBA's Internal Management Committee initiated a special study called The Internal Control/Audit Survey questionnaire. At the request of 1979 MBA president Claude Pope, members throughout the country responded to a series of detailed questions. These responses were then tabulated and are described in this article. The article is accompanied with tables so that the reader can easily see how internal audit and control systems have developed within the industry.

The survey was conducted to answer four basic questions:

1. How many mortgage banking companies presently have an internal audit program?
2. How long has the program been in operation?
3. How much does the program cost?
4. If a company does not have an internal audit program, does it have some form of quality control?

In order to keep members aware of the Association's efforts, all 3,400 MBA members received the questionnaire. Responses were tabulated only for the 805 target firms—regular members who pay dues based on both originated and serviced mortgages. The response from this group of target firms was as follows:

Surveys sent to Regular Members	805
Number of responses received	318
Response Ratio	40%

This response group totalled 318 regular members, or 40% of the target group, a good response rate by statistical standards. Table 1 shows the distribution of the 318 responses by company type.

Existence of audit programs

One of the survey's key questions was "Does your company answer to an internal auditor or department?" Those responding to the survey could answer either, "yes" or "no." Of the total 318 responses, 144 firms, or 45 percent, said yes, and the remaining 174, or 55 percent, said no. Those respondents who indicated they did have an internal auditor or department were then asked to supply further data, such as the length of time they had had such a program, staffing levels in the internal audit department, and the budget for the program.

Those who said "no," were asked if their company had some kind of quality control program, and how extensive the program was. The "no" responses are analyzed at the end of this article.

Table 2 shows the results of this first key question by type of company responding. As the table indicates, independent companies (which tended to be smaller than the others) were the least likely (27 percent) to have audit programs. By contrast, 78 percent of companies affiliated with commercial banks and 58 percent of those affiliated with savings and loans said they had internal audit departments. This difference be-

Table 3
Existence of Audit Programs By Size and Type of Company

Company Type and Response	Total	Size of Servicing Portfolio (Million $) Under $100	$100 to $200	$200 to $400	$400 to $800	Over $800	Size Not Specified
All Regular Members							
Total Number							
Yes	144	21	15	29	29	49	1
No	174	77	36	39	9	6	7
	318	**98**	**51**	**68**	**38**	**55**	**8**
Percent							
Yes	45	21	29	43	76	89	13
No	55	79	71	57	24	11	87
	100	**100**	**100**	**100**	**100**	**100**	**100**
By Company Type							
Independent Company							
Yes	44	15	3	6	8	12	0
No	131	61	29	27	7	2	5
	175	**76**	**32**	**33**	**15**	**14**	**5**
Commercial Bank Affiliate							
Yes	65	1	10	13	16	24	1
No	18	6	4	5	1	1	1
	83	**7**	**14**	**18**	**17**	**25**	**2**
Savings & Loan Affiliate							
Yes	11	3	0	4	2	2	0
No	8	3	2	3	0	0	0
	19	**6**	**2**	**7**	**2**	**2**	**0**
Other							
Yes	24	2	2	6	3	11	0
No	17	7	1	4	1	3	1
	41	**9**	**3**	**10**	**4**	**14**	**1**

tween the independent and the affiliated firms probably reflects the heavy regulation applied to both commercial banks and savings and loans, making internal audit more of a necessity for them.

Next, the yes and no answers were divided according to the size of servicing portfolio and type of company. This was done to see how the size and type of the firm affected the likelihood of its having an internal audit program. As expected, Table 3 shows that the larger the company, the more likely it is to have an audit program. The table also shows that the $400 million portfolio size marked the midpoint; more than half of the firms over that size had an internal audit program. Even above that level, however, the independent companies were much less likely to have an audit program.

Many of the survey's respondents

Table 4
Internal Auditors in Respondent Companies Affiliated with Other Firms

Type of Parent Company	Respondent Company Internal Auditors	
	Own Staff	Parent
Commercial Bank	26	40
Savings & Loan	2	8
Other	13	11
	41	**59**

Table 5
Year Internal Audit Department was Organized

Type of Company	YEAR				
	1972 or Earlier	1973–1974	1975–1976	1977–1979	Date Not Indicated
Independent Company	4	4	8	27	1
Bank or Savings & Loan Affiliate	4	4	6	14	0
Other	1	0	4	8	0
	9	**8**	**18**	**49**	**1**

were mortgage companies affiliated with another firm such as a commercial bank or savings and loan. These affiliate firms often said that the internal audit department was not part of their company, but part of the parent entity. Because of this, the affiliate firms were surveyed to see whether the internal audit staff was part of the mortgage company or was part of the parent company. The results are shown in Table 4.

Survey responses were analyzed to determine how long mortgage bankers have had their audit programs (Table 5) and how large these internal audit programs are (Table 6).

Cost of program

Understandably, the amount of funds that can be devoted to an internal audit program depends on the size of the firm. Table 7 shows that most of the small

THANKS CBS

That's Cameron-Brown South, not the TV network. Cameron-Brown South (Reid-McGee at that time) joined forces with us in 1971. Since then we've grown together to rank among the ten largest mortgage bankers in the country with a combined $2.7 billion servicing portfolio.

Recently, Cameron-Brown South's portfolio exceeded $500 million. Another milestone for our southern partner.

We're proud of Cameron-Brown South and happy to be associated with Mississippi's oldest mortgage banker.

We'll soon reach $3 billion - together.

Cameron-Brown
COMPANY
MORTGAGE BANKERS

4300 Six Forks Road, Raleigh, NC 27609 (919) 782-3911
A First Union Company

Table 6
Number of Companies With Own Internal Audit Staff Number of Audit Employees by Size of Servicing Portfolio

Number of Employees	Total	Size of Servicing Portfolio (Million $) Under $100	$100–$200	$200–$400	$400–$800	Over $800
1–2	57	11	5	12	15	14
3–5	22	2	—	1	2	17
6–8	2	—	—	—	—	2
More than 8	1	—	—	—	—	1
Total	82	13	5	13	17	34

Table 7
Number of Companies Reporting Annual Budgets of Internal Audit Departments By Size of Servicing Portfolio

Annual Budget	Total	Size of Servicing Portfolio (Million $) Under $100	$100–$200	$200–$400	$400–$800	Over $800
Under $30,000	35	10	4	9	7	5
$30,000–$50,000	12	—	1	1	5	5
$50,000–$100,000	19	1	—	—	3	15
$100,000+	4	—	—	—	—	4
	70	11	5	10	15	29

Table 8
Quality Control Programs in Firms with no Internal Audit Program

	Number	Percent
Yes	108	62
No	63	36
No Response	3	2
	174	100

Table 9
Policy Statement Signed

	Number	Percent
Yes	35	35
No	66	65
	101	100

Table 10
Re-Verify Items

	Number	Percent
All Items	70	67
Some	24	23
None	11	10
	105	100

companies spent less than $30,000 a year on their internal audit program, while more than half of the large firms had budgets over $50,000.

Quality control programs

As mentioned earlier, 55 percent or 174 of the respondents said that they did not have an internal auditor or internal audit department. These firms were asked to answer additional questions in the final section of the survey. This final section asked whether the firm had a quality control program and whether it had considered adding an internal audit program. As Table 8 indicates, 108 of the firms (62 percent) had some kind of quality control program, even if they did not have an internal audit program as such. Also, several companies mentioned that an executive committee or certain officers review loan origination applications, documents, and loan files.

To assess the extent of these quality control programs, the 108 firms were then asked some specific questions about review procedures. The two questions were as follows: Do you have a policy statement signed by all origination employees? and As part of the quality control programs, do you re-verify employment, credit reports, bank deposits, and appraisals? Tables 9 and 10 analyze the responses of these firms.

The 55 percent without an internal audit program were also asked why they did not have one and if they planned to begin one. In response, a large portion of these firms mentioned one of two prima-

ry constraints: their small size or the cost of such a department in relation to size. Typical comments were "need more loan volume to justify" and "future growth or decentralization may make this necessary."

Nineteen companies indicated they would implement an internal audit department if required to do so by investors, outside CPAs, parent companies, or by regulation. Several other companies stated they would implement a program if irregularities were occurring or if they became involved in legal proceedings.

Also, many companies said that they had considered setting up an audit department but had not as yet done so. In fact, twenty-three firms presently without audit departments stated that they planned to establish such a department within one year.

Summary

In the 318 responses received from regular MBA members, 144 replied that they did have an internal auditor or department. If these responses are added to the 108 firms that indicated they did have a quality control program, we see that 252 of the responding firms (79 percent) had an internal control program of some type. Although these programs varied widely in scope and activity, this response reveals the strong interest mortgage bankers have in internal control and their recognition of the role control systems can have in their firms.

The fact that many smaller firms stated that they have an internal auditor indicates that the cost of a program may not be quite the problem that some firms without internal auditors imagine. Perhaps the firms with internal auditors are more aware of the business efficiencies an internal audit program can produce, as well as the assurance such a program can provide to top management that its policies are being followed.

There is no doubt that, although mortgage bankers have long been aware of the usefulness of a system of internal controls, the creation of a separate internal audit department within a company is a fairly recent phenomenon. However, as this survey showed, internal audit is a growing trend within the industry and is becoming increasingly recognized as an integral part of the standard operations of a mortgage banking company.

For several years, MBA, its Internal Management Committee, and its Internal Control Subcommittee have encouraged the industry to develop and improve internal audit and control systems. The survey indicates that their efforts have paralleled the interests of the industry. □

SHORT AND LONG TERM FUNDS
IMMEDIATELY AVAILABLE

For Banks and Savings & Loan Associations at favorable rates

Now we can offer you greater liquidity, have additional funds to satisfy customers' needs, and extend additional credit.

We can assist with the following:
- Work-out of problem loans
- FmHA (Single Fam & B & I)
- Participations — primary and secondary Markets
- Funding Commitment Letters
- Stand bys
- Compensating Balances—C.D.s

We welcome your inquiry

ONE ROCKEFELLER PLAZA, NEW YORK, N.Y. 10020

WESTON

Toll Free 800-223-1122
212-581-8620

SERVING THE BANKING & FINANCIAL COMMUNITY SINCE 1963

MORTGAGE LOAN SERVICING

TURNKEY MORTGAGE LOAN SYSTEMS

ASSET MANAGEMENT

ADS

Our on-line system was designed by mortgage bankers to make operation by your staff simple and easy. It provides immediate information, enables you to operate independently from service bureaus, and streamlines your operation by eliminating hand posting systems. Features include random access, daily reporting, delinquency reporting on demand, and invester reports.

Our asset management system is a complete system for collection and servicing of loans. It has improved the cash flow position of several major lenders.

Automated Design Systems - Mr. J. W. Farquhar
2000 Market St., Philadelphia, PA (215) 567-3769

Professional Property Management is Good Business

Our goal is to maximize profit for the property owner. Because of our extensive experience in all facets of real estate and with all types of property, we have the skills to provide the necessary property supervision and accounting functions. Most of all, we work with every client on a personal basis.

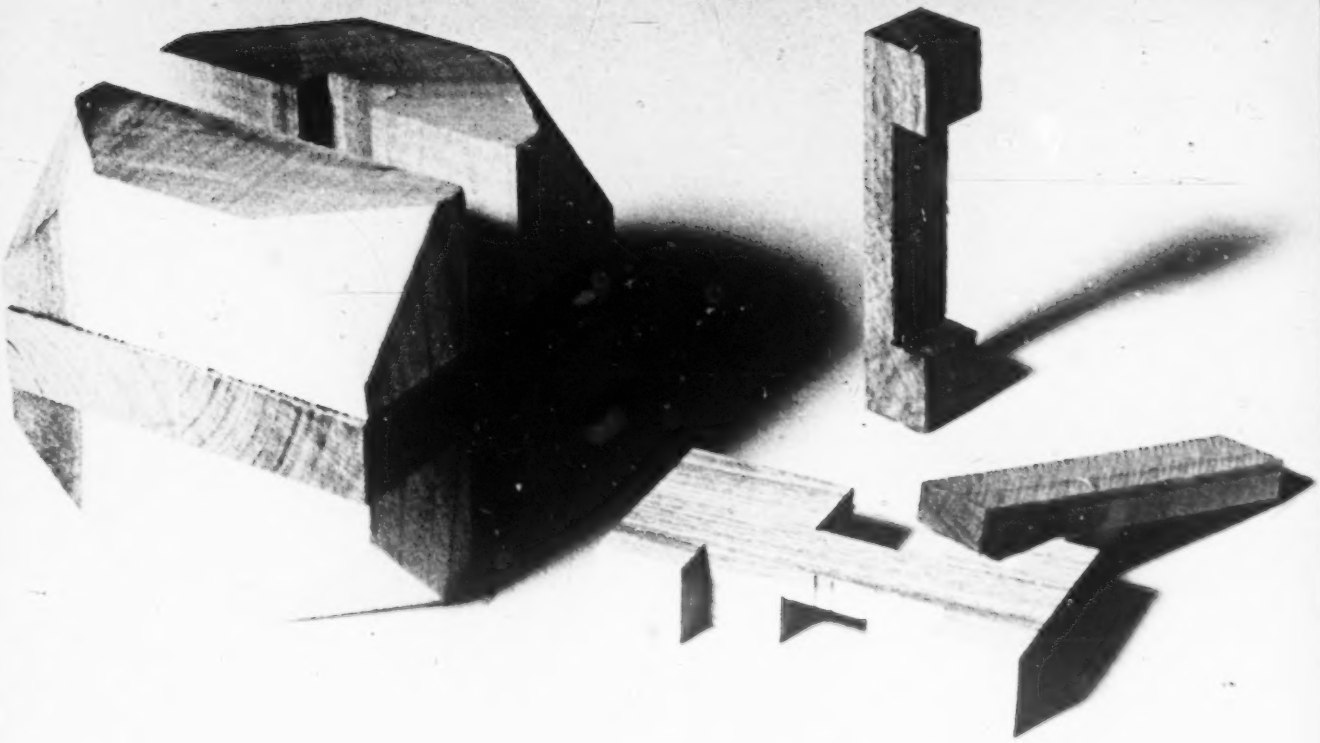
We combine expertise and professionalism with First Rate Service at a Fair Price.®

For further information contact: William W. Davis, Vice President

Transamerica Real Estate Services

600 Montgomery Street
San Francisco, CA 94111
(415) 983-5400

Diversification Planning: A Schematic



Carl J. Hanson and Lawrence J. Trautman

A casual perusal of MBA's Membership directory will quickly demonstrate that many mortgage bankers have pursued diversification in numerous ways. Many mortgage banking firms are still guided by their entrepreneurial founder and are generally alert to potential shifts in both the markets they serve and their mix of services offered. Through mergers and acquisitions, many firms have successfully diversified both internally and externally.

Mr. Hanson is vice president, Urban Lending Division, Investor's Mortgage Service Co., Los Angeles, California. Mr. Trautman is Chairman, OZMA Corporation, Washington, D.C.

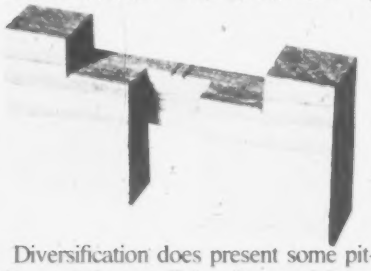
What is diversification?

Diversification is not new to the mortgage banking industry. While a "conceptually pure," all inclusive definition of the mortgage banking function is often difficult to obtain, a real life example of a mortgage banker engaged solely in mortgage banking is even harder to find. An unpublished study, using data primarily derived from MBA's 1978 *Membership Directory*, found that mortgage banking companies frequently engage in numerous activities outside the areas of loan production and servicing. Other business activities included insurance sales, property management, real estate sales, construction lending, land development, real estate investment, joint ventures, syndications, engineering services, land planning, and urban renewal.[1] Most diversified firms were found to remain in the service industries, often expanding existing functions. Thus, during recent years many mortgage banking companies have broadened their product lines from providing hazard insurance to offering full life insurance lines, property and casualty, and assorted special insurance programs; expanded the appraising function into real estate consulting and feasibility studies; expanded their income property operations to include corporate attorneys who structure sale and leasebacks and joint ventures and provide financial consulting; and developed the service de-

partment into a profit center by selling data processing, escrow, and accounting services to other firms. Table 1 relates the various business activities reported by those firms studied

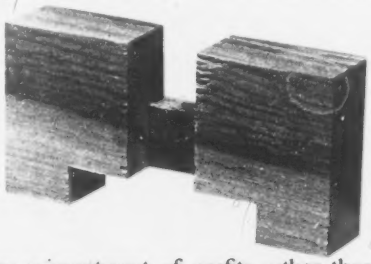
Why diversify?

Service firms can grow by additional market penetration, by positioning in expanding markets, or by diversification. Diversification will probably only make sense in a situation where company management is not overly preoccupied with the day-to-day management of the firm (putting out current brushfires) and is strong enough to commit the necessary resources (time, talent, and money) to achieve its goals. Productivity within the service sector generally lags behind the manufacturing sector. The efficient application of systems techniques to the mortgage banking business offers prospects for substantial gains in operating efficiencies.[2] Therefore, many opportunities are available to a mortgage banker seeking to diversify, particularly into other "service oriented" lines of business.



Diversification does present some pitfalls, and these will be discussed later. External or internal diversification also offer benefits, as summarized by George Steiner.[3] Diversification can help a business to:

- Avoid dependence on one line of services. Tomorrow will surely differ from today and many of today's services will become obsolete.
- Achieve sales and profit stability. A broadened base of services and markets will allow profitable services to offset losses from temporarily less profitable services.
- Increase growth of sales and profit.
- Obtain technical knowhow. This is a common motive for the joint-venture or acquisition.
- Achieve fixed cost reduction through intensive use of marketing or production systems.
- Gain broadened geographical distribution. This can occur through branching, horizontal integration, or the franchised approach shown on the matrix as concentric diversification.
- Accrue attractive tax advantages from acquiring other firms with a tax loss carry forward. Currently, tax laws favor the reinvestment of profits rather than their distribution to investors as dividends.
- Decrease competitive problems. For those firms presently concentrating their activities in highly competitive markets, the negative impact of profit squeezes will be felt less as the company diversifies its activities into other, more profitable geographical markets or into more attractive product lines.



- Profitably employ surplus cash. Often, attractive investment opportunities within the core service and market areas may be limited.
- Raise the firm's value. A publicly traded firm can increase its value if investors place a premium on its stock due to intelligent diversification.
- Overcome unfavorable geographical locations through branching, horizontal integration, or franchises.
- Capitalize research in a given market or service through the development of related markets and services.
- Achieve a competitive advantage in serving present markets through completing a line of services. If a complete line is necessary to serve the customers who contribute most heavily to the firm's profit, this advantage can be tremendous.

Table 1
Diversification by Mortgage Companies
Number of firms studied: 557

Categories of Diversification	Number of firms	Percent of firms
Business or Agricultural loans	55	10%
Construction loans	137	26
Data processing services	19	4
Escrow services	13	3
Fee appraisal services	177	34
Financial or Real Estate consulting	40	8
Home improvement or consumer loans	12	2
Insurance sales	318	60
Joint ventures, syndications or r.e. investment	51	10
Land development	122	23
Leasing	47	9
Property management	260	49
Real estate sales	249	47
Sale-leaseback purchases	8	2

Other activities (reported by less than 1% of firms studied)

Accounting services	Estate planning	Realtor training school
Bond sales	Investment banking	Tax service
Building insurance	Land planning	Travel agencies
Engineering services	Mobile home loans	Title services
Equipment leasing	Private placements of corporate debt	Trust management
Equity fund management		Urban renewal

Source: Mortgage Bankers Association of America.
Cecil E. Sears, III, "Diversification by Mortgage Companies," unpublished study, 1978

Table 2
Kotler Product-Market Matrix

SERVICES	MARKETS: Existing	Related	New
Existing	Market Penetration 1		Market Diversification 2
Related	Service Diversification 3	Service & Market Diversification 4	Concentric Diversification 5
New	Horizontal Diversification 6		Conglomerate Diversification 7

Directions of Increasing Risk

- Increase borrowing capacity through the acquisition of an asset-laden firm.
- Acquire new management, which often provides a company with fresh skills and new insights.
- Attract new employees due to the potential for a stimulating, more varied career ladder.
- Relieve psychological pressure on employees and customers desiring different work and different products. Diversity in this regard may provide the company with practice in adapting to and making creative, profitable change.
- Re-create cost centers as profit centers. Several mortgage bankers have successfully converted their data processing and personnel cost centers into profit centers.

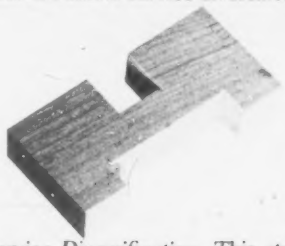
How can diversification be analyzed?

The product-market matrix provided in Table 2 is a particularly useful way to chart potential paths of corporate growth. Our discussion of diversification terminology will begin with an explanation of the various diversification strategies represented in the following expanded version of the Kotler matrix.[4]

Market Penetration. This strategy seeks to increase sales of present services in present markets through additional marketing efforts. Useful tactics include increasing usage by present customers; obtaining business at the expense of competitors; and inducing nonusers to try the service. These tactics must be aggressively pursued, but in a turbulent business climate traditional markets may wither and traditional services may lose their appeal. Diversification from the current market and service bases may become necessary.

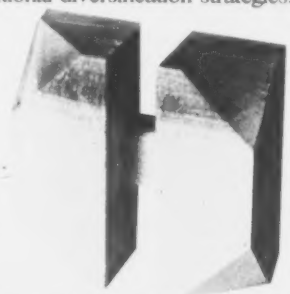
Market Diversification. The literature on the product-market matrix is divided between calling this strategy "market diversification" or "market development" and between "service development" and "service diversification." We take the position that diversification occurs when a firm adds new services or new markets and that both need not be pursued concurrently to constitute diversification.

Market diversification seeks to expand corporate sales by exposing current services to new or related markets. Some tactics of this strategy include geographical expansion by opening new branch facilities and selling existing services to new or related user groups in the existing geographical regions. Although we live in a post-industrial, heavily services-oriented society, marketing literature typically retains a product orientation. Product marketeers would pursue this tactic by altering the services offered with their products but in our view, *service* is the product. Likewise, if you subscribe to this "service oriented" viewpoint, you would probably agree that alteration of the service mix is service diversification.



Service Diversification. This strategy, often called "product development" or "service development," seeks to increase sales by developing new or improved services for existing markets. Tactics for implementation of this strategy include modification or improvement of current services; addition of services currently offered by competitors; and development of a new service related to current offerings.

Service & Market Diversification. This strategy seeks to increase sales by offering slightly different products to slightly different markets. There is higher risk involved than in the other three strategies because corporate management usually is not intimately familiar with either the markets or the services. The four strategies mentioned so far are sufficient to describe most growth plans and are often displayed in a 2 x 2 product-market matrix. The 3 x 3 matrix permits the discussion of three special and often useful additional diversification strategies.



Concentric Diversification. This strategy seeks to add services that involve marketing or technical synergy compatible with existing services. The new and existing services are offered as a comprehensive system or package to previously unserved customer groups. Many regional service firms have developed suc-

cessful operational systems that could be marketed independently. Successful franchisors often initially served a particular geographical market and later developed a system that could be marketed in other regions to other businesses. For example, when Evans Products added a construction finance system to their lumber division, the result was Capp Homes. In this case, the landowner who wanted to build a home on a "do-it-yourself" basis became a new market.

Horizontal Diversification. This strategy refers to services that are technologically unrelated to the present services line yet are offered to the same markets. In many cases, employment of this strategy may test the strengths of current management and subject the firm to new and significant areas of risk. A retail grocery firm that acquires a savings & loan is a good example.

Conglomerate Diversification. This strategy adds fundamentally unrelated new services or new markets and involves maximum risk to the firm. The new venture may involve considerable opportunity. However, because managers may lack familiarity with these unrelated lines of business, successful internal development can be difficult. Thus, this strategy often involves acquisition, merger, or joint venture considerations.

Growth Through Integration. The following three strategies do not fit neatly into the matrix but represent potential areas of growth.[5]

- Forward integration occurs when a company seeks ownership or control of its distribution systems, as, for example, when Merrill Lynch acquired United First Mortgage Corp.
- Backward integration happens when a company seeks ownership or control of its supply systems. Numerous real estate and building firms have established mortgage subsidiaries to ensure the cost and availability of mortgage funds.
- Horizontal integration occurs when a company seeks to expand its sales through the purchase or control of competitors. Acquisition and merger activity among savings and loans, real estate sales organizations, builders, escrow companies, mortgage companies, and related firms has been substantial during recent years, vividly illustrating this strategy.

Table 3
Services and Facilitating Goods

Existing	Potential
Loan programs	**FHLMC pass-thru**
Gov't	**FNMA multifamily**
FNMA	**FNMA mobile home**
High bal. conv.	**Conventional MBS**
HFA's	**State HFA multi-family**
Recreational	**Early mortgage processing**
Processing	**Fast tract processing**
tract	**AITD collateral**
spot	**Escrow—State HFA et al.**
Block purchases	**Secondary financing**
local	swing loans
national	purchase money
cash	wraparound
deferred	PPB license
Forward commitments	Land loans
floor	TD collateral loan
market	**Home-purchase guarantees**
Project prior approvals	**Brokerage**
FNMA	land
FHA/VA	commercial loans
HFA	SBA loans
Interim disbursement control	Condo projects
rehab	Bonded warehouse
move-on	**Investment placement**
modular	Apartment syndicate
new const.	2nd TD's
Property management	Predevelopment
condos	**Municipal bond underwriting**
rentals	**Computerized appraisals**
Leasing	**Computer pipeline accounting**
Home improvements	**Investment banking**
Brokerage	GNMA
Insurance	Municipals
Computer loan accounting	CBOT
Loan servicing	**System vs commodity sales**
Warehousing lines	Rehab. coordination
Compensating balances	Mort. co. startups
Gov't. program information	Mort. co. services
	Proprietary components
	Sale by owner aids
	Video mortgage info
	Condo conversion
	Computer land inventory
	Development packaging
	Realty sales franchise
	100% realty chain
	Cut rate realty chain
	Modular distributor

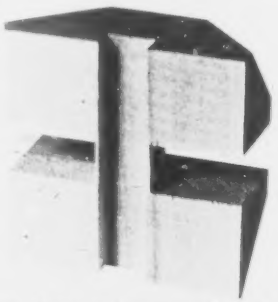
Identification of opportunities

At this point, it is important to contemplate the concept of the "range of services" offered by a mortgage banker and their facilitating goods. While mortgage bankers actually sell a product (i.e. mortgage money), they must market the benefits a closed loan brings to all parties.

Table 4
Customer Base Typical Mortgage Banker

Existing	Potential
Apartment tenants	**Municipal HFA's**
Real estate brokers	**Modular mfgrs.**
homes	**Prefab & component manufacturers**
land	**Individual investors**
chain	**Do-it-yourself builders**
Existing borrowers	**For sale by owners**
Builders	**Lumber/material firms**
small	**Land developers**
large	urban
Operative rehabbers	recreational
Remodelling contractors	**Redevelopment agencies**
Apartment	**Brokers**
brokers	2nd TD
developers	**Architects**
owners	**Engineers**
Loan brokers	**Foreign Investors**
Home buyers	
Land owners	
FNMA/FHLMC/HFA/VA	
Institutional investors	
Mortgage bankers	
small	
large	
Local banks	
Local S&L's	
Rehab packagers	
Equipment	
vendors	
lessees	

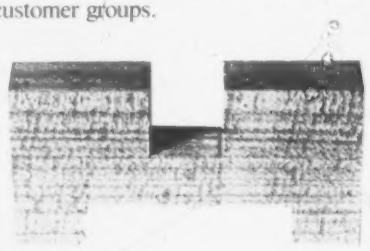
Since insured loans are "commodity products," the most marketable service provided by the typical mortgage banker is the set of skills needed to convert loan applicants to property owners. Manufacturers of products often refer to "facilitating services," and service firms often refer to "facilitating goods." It may be preferable to think of the mortgage banker as a service firm that uses mortgage money as a facilitating good.[6]



The simplest operational level to analyze involves a mortgage banker that originates loans against investor commitments and releases its servicing at a premium. This firm offers services to real estate agents and their clients that include consultation about the most appropriate loan type; assumption of risk of price shifts; assurances of most expeditious handling; communication between all parties to relieve anxiety that the loan may not close; and preparation of documentation satisfactory to borrower, mortgage insuror and investor.

For its services, the small firm typically receives from $400–1,800 per transaction including origination fees, marketing gains (including sale of service), and documentation fees. The manager of this firm is free to design a service environment that creates customer benefits at various levels of service. At this simple operational level, the manager can process prepackaged VA tract loans for $400 per case or originate a $100,000 VA refinance on a 6-unit apartment for two veterans at a fee of $1,800.

The ability to differentiate specific services and segment markets allows a mortgage banker to market services precisely. If McDonalds can differentiate its regular cheeseburger from its "Big Mac," mortgage bankers must be able to differentiate among services and offer them at appropriate prices to appropriate customer groups.



The list of services and facilitating goods presented in Table 3 was appropriate for one mortgage banker. While it goes beyond the capacity of more small and medium sized mortgage banking firms, it might serve as a schematic to be reorganized by a firm in one of two categories: existing services; and related or different services.

Range of customer types

Mortgage banking companies survive by servicing the needs of their customers, but each customer typically has a different perception of value and a different set of needs. To successfully offer the right package of services to the right customer group, any company's customer base must be segmented in a meaningful way. An example of a particular firm's analysis of its customer base is presented in Table 4.

Directions for growth

The product matrix presented in Table 2 identified seven directions of growth. Exploitation of the first four will probably keep most mortgage bankers busy for years.

Once the lists of customers and services have been divided into existing and potential categories, the matrix in Table 5 will be easy to construct.

Planning for diversification

The basis for diversification planning should be the overall corporate plan of the firm. An honest assessment of corporate strengths, weaknesses, opportunities, and threats will provide initial direction for diversification efforts. A helpful, step-by-step approach to the subject of

corporate planning is provided by Day, Poole, and Trautman in "Strategic Planning: A Gameplan for Mortgage Bankers" in the February 1979 *Mortgage Banker*.[7]

While a purely intuitive approach often leads to successful diversification, a more structured approach avoids pitfalls and allows management to consider the variables before acquisition arrangements or budgeting for internal development need be approved. The following steps are not necessarily exhaustive:

- Prepare an overall corporate plan.
- Determine the various objectives that could be obtained by internal or external diversification.
- Develop a list of ideas for achieving the objectives.
- Develop a detailed list of criteria for screening each potential venture.
- Analyze the ventures to determine the usefulness and feasibility of further development.

Internal development

- Conduct required research and development.
- Test market the service.
- Produce and sell the service on a widespread basis.
- Measure actual results against initially established plans.

Acquisition or joint venture

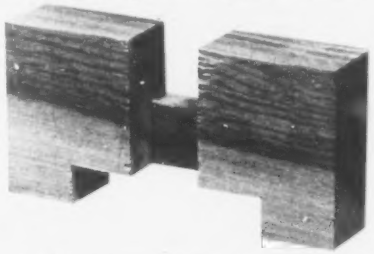
- Discuss opportunities and downside risks with potential partner.
- Negotiate terms of the arrangement.
- Conduct operations as agreed.
- Measure actual results achieved against the initial plans.

Internal vs. external growth

The benefits from diversification can be derived through internal development, acquisition or merger, joint venture, or a combination of these methods. Acquisition or merger strategies are generally available only to larger mortgage banking firms and may bring about the following advantages as described by Steiner:[8]

- The required time and managerial effort required for internal development can be lessened.
- Risk of failure is reduced if a successful operation is acquired.
- Acquisition costs are sometimes below replacement costs.
- An exchange of stock can permit acquisition financing when capital is unavailable for internal development.
- Integration following merger may allow economies that benefit both parties in the venture.
- The existing services and markets of an acquired firm are already known so that results of this diversification can be more easily predicted and rates are more completely known.

Reasons why firms are available for sale include estate tax considerations of owners in closely held corporations, dissension among parties, entrepreneurs who wish to exploit other opportunities, and freedom from a narrow product line. Since the sellers normally require substantial cash or publicly-traded stock, most mortgage bankers must concentrate their diversification efforts in the area of internal development or joint venture.



Joint ventures are a flexible tool for diversification, providing that the joint venture has autonomy; the parents spell out their mutual objectives; joint management is avoided; and ground rules for conflict resolution are well established. Some examples of successful joint ventures have been real estate development between building entrepreneurs and financial service firms; large loans made by a "consortium" of lenders; and joint ventures between several mortgage banks to develop a computer service bureau. This effort, for example, converted the cost centers of two California firms to one profit center. Many specialized services are required nationally but are best provided by local or regional firms. Perhaps a joint venture in data processing system development between two or three mortgage banks that do not compete in the same geographical markets is a useful strategy when developing these specialized services.

Evaluating the diversification opportunity

Whether diversification occurs internally or externally, a thorough feasibility analysis of the proposed operation is a logical step to avoid high costs of failure. Since diversification is rather frequent in many firms, the development of screening criteria relevant to the particular opportunity will assist management in its considerations, increasing the probable success rate.

Shollhammer offers the following typical causes of new business failure, suggesting questions that must be asked about each proposed internal development or joint venture:[9] inadequate market knowledge; faulty product performance; ineffective marketing and sales efforts; inadequate awareness of competitive pressures; rapid product obsoles-

Table 5
Market Service Matrix

SERVICES	MARKETS: PRESENT	MARKETS: POTENTIAL
PRESENT	1	2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20
POTENTIAL	11	12 13 14 15 16 17 18 19 20

CALL JACK

1-800-328-1950

Jack's manning the hotline with exciting information for people who loan money. Information about insurance. That's right, *insurance*.

It's called CCLI . . . Creative Customer Loan Insurance.

Underwritten by Omaha Financial Life, a Mutual of Omaha Company, this program features the kinds of protection most customers want . . . *and the kinds of conveniences busy money lenders need*.

Check these coverages: Credit Life, Credit Disability, Mortgage Life, Mortgage Disability, Term Life, Accidental Death, Cancer, Hospital Indemnity.

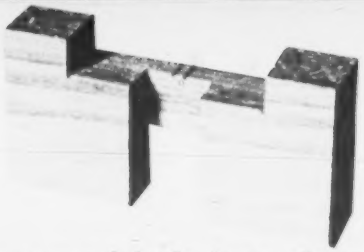
We team them up with easy-to-understand policies, uncomplicated forms, simplified billing statements, professional personnel training, and proven sales aids.

But that's not all. Because Direct Mail is the key to so many customer loan insurance programs, we maintain a mailing service that puts information in loan customers' hands *quickly and conveniently*.

Creative Customer Loan Insurance . . . get all the facts today. Call Jack.

Jack Fortner, Vice President Sales, Omaha Financial Life Insurance Company.

Omaha Financial Life Insurance Company
A Mutual of Omaha Company



cence; poor timing for the start of a new venture; and financial difficulties such as undercapitalization, unforeseen operating expenses, and expensive investment in fixed assets.

Acquisition rather than internal development involves more certainty about many of these items. Acquisition considerations include size of company; type of business and profitability; market share and growth potential; price and financing; management compatability; and potential for integration.

Pitfalls of diversification

The success stories of American enterprise most often involve firms that developed a central technology or cultivated a particular market with distinction. Peter Drucker has noted that many recent business failures involve conglomerateurs or others that sought to be all things to all people.[10]

Particular potential pitfalls facing many diversified enterprises include:

- Communication problems probably grow geometrically as business complexity increases.
- Vulnerability to competition from smaller concentrated enterprises.
- When problems occur, top management's effectiveness is potentially lessened since it has relied on reports rather than first-hand exposure.
- A "superman" may fathom a diverse enterprise, but during his absence or upon his demise the business may become uncontrollable.
- The management of a service firm is confronted with numerous types of complexity that can be categorized as operational complexity, market complexity, development complexity, ownership complexity, and environmental complexity. When complexity is not carefully monitored and controlled, it may exceed the operational capacity of management.[11]
- Pitfalls involved in the selection of a particular opportunity include lack of objectivity resulting from failure to perform a complete marketing feasibility study; lack of market familiarity; underestimating financial requirements; lack of product differentiation; and inadequate understanding of legal issues.
- Pitfalls involved in the management of an embryonic service often include failure to recognize that new ventures require an entrepreneural management style often unsuitable to a firm whose major product lines are mature and heavily controlled; and failure to allocate sufficient corporate resources to allow growth and development.

Summary

This article has highlighted some of the many types, reasons, methods, and pitfalls of diversification for mortgage bankers. Clearly, enlightened management must weigh the benefits from diversification against the risk of unmanageable complexity; the benefits from concentration and increased market penetration against the risks of overspeculation. The task before top management, as always, is to provide profits to the owners of the firm. Diversification, whether through expansion of markets, services, or both, is a means of achieving this end. In pursuing diversification, management must develop analytical procedures and successful strategies in order to infuse a core of unity into the firm's diversification plans and ultimately, to create profits for the firm's owners.

1. Cecil Sears, "Diversification By Mortgage Companies." (Washington: Mortgage Bankers Association of America, unpublished 1978).
2. Theodore Levitt, *Marketing for Business Growth* (New York: McGraw-Hill, Inc., 1974, p. 51-68).
3. George A. Steiner, *Top Management Planning* (New York: MacMillan Co., 1969, p. 631-634).
4. Philip Kotler, *Marketing Management: Analysis, Planning and Control* (New Jersey: Prentice Hall, Inc., 1976).
5. Kotler, *ibid*.
6. Mack Hanan, *Accelerated Growth Planning* (New York: McGraw-Hill, Inc., 1978, p. 201-208).
7. Sam R. Day, Frank Poole III, and Lawrence J. Trautman, "Strategic Planning: A Gameplan for Mortgage Bankers," *Mortgage Banker*, Volume 39, Number 5, February 1979, p. 5-18.
8. Steiner, *op. cit.*, p. 634-635.
9. Hans Schollhammer and Arthur H. Kurloff, *Entrepreneurship and Business Management* (New York: John Wiley and Sons, 1979, p. 54).
10. Peter F. Drucker, *Management Tasks, Responsibilities, Practices* (New York: Harper & Row, 1974, p. 679-690).
11. W. Earle Sasser, R. Paul Olsen, D. Darryl Wycoff, *Management of Service Operations* (Boston: Allyn and Bacon, Inc., 1978, p. 561).

□

Mortgage Market Trends

Prepared by MBA's Economics Department

May 21, 1980

The long-awaited recession, which finally appeared on the housing industries' doorstep during the first quarter, has already overstayed its welcome. Fortunately, in coming months the recession is expected to shift some of its weight out of the housing sector and into other sectors of the economy. This will allow the housing and real estate finance industries to begin a protracted period of recuperation.

Housing production's decline, which began in earnest last October, has been closely synchronized with the implementation of Federal Reserve credit restrictions. The housing market's response to construction loan interest rates in excess of 20 percent and mortgage rates only a few percentage points below that was one of drastic decline. Trends in both housing sales and starts have plummeted to lows reminiscent of the worst of the post-war recessions.

Recently, however, the picture has begun to brighten. With loan demand and short-term interest rates dropping into a much more comfortable range, the Federal Reserve will be relaxing its grip on the credit markets. Although mortgage rates will not fall as precipitously as short-term rates, their decline into the 11 to 13 percent range should signal a significant increase in the effective demand for homes. Of course, the inevitable caveats of rising unemployment, declining real personal income, and reductions in savings flows must be considered when discussing effective housing demand. Despite these factors, however, the public has demonstrated its willingness to sacrifice for a home purchase. While this trend is slowing, it will not disappear entirely as long as high levels of inflation persist.

A severe economic downturn would offer us some amount of consolation if it significantly reduced the inflation rate. Indeed, the consumer price index should show substantial abatement, perhaps even dropping briefly near single-digit rates as we move further into the recession. Unfortunately, there is no guarantee that a recession will reduce long-term inflation. In fact, the possibility exists that a significant downturn may actually aggravate the situation. Increased levels of federal deficit spending caused by additional outlays for unemployment benefits and decreased tax receipts will do little to reduce price increases. Furthermore, election year politics may cause premature fiscal and monetary stimuli to be applied, especially if unemployment asserts itself as a major campaign issue.

Added to these factors are the longer-term problems of mounting energy costs, escalating wage demands, and declining productivity. All in all, it may well turn out that recession's "bitter remedy" for price increases will prove to be nothing more than a placebo, having little effect on the long-term battle against inflation.

Schuyler Schell, Economist

MORTGAGE MARKET TRENDS—JUNE 1980

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES						HOUSING STARTS					
	Actual			Seasonally Adjusted Annual Rate			Actual			Seasonally Adjusted Annual Rate		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979												
JAN	81	56	25	1,324	959	365	88	64	24	1,727	1,296	431
FEB	84	57	27	1,321	878	443	84	64	20	1,469	1,090	379
MAR	141	103	38	1,531	1,103	428	153	120	33	1,800	1,394	406
APR	139	106	33	1,437	1,082	355	161	131	30	1,750	1,386	364
MAY	162	111	41	1,618	1,163	455	189	144	45	1,801	1,349	452
JUN	156	112	44	1,639	1,144	495	193	147	46	1,910	1,399	511
JUL	138	104	34	1,528	1,136	392	164	130	34	1,764	1,352	412
AUG	152	111	41	1,654	1,181	473	172	133	39	1,788	1,389	399
SEP	140	90	50	1,775	1,166	609	164	117	47	1,874	1,360	514
OCT	141	96	45	1,542	1,064	478	169	122	47	1,710	1,268	442
NOV	98	64	34	1,263	850	413	119	82	37	1,522	1,094	428
DEC	81	52	29	1,244	899	345	92	65	27	1,548	1,165	383
1980												
JAN	75	52	23	1,264	882	382	73	56	17	1,419	1,219	290
FEB	76	54	22	1,142	801	341	80	55	25	1,330	887	443
MAR	82	56	26	932	627	305	85	59	26	1,041	705	336
APR	78p	54p	24p	800p	531p	269p	95p	69p	26p	1,019p	713p	306p
3 months												
1980	233	162	71				238	170	68			
1979	306	216	90				325	248	77			
1978	340	243	97				362	280	82			
1977	331	253	78				367	293	74			

VALUE OF NEW CONSTRUCTION PUT IN PLACE

(Dollars in millions)

Year and Month	Seasonally Adjusted Annual Rate			
	Total	1 Unit	2+ Units	Non-Res.
1979				
JAN	112,999	61,407	13,208	38,384
FEB	115,191	62,308	14,663	38,220
MAR	119,211	61,376	14,957	42,868
APR	118,621	59,868	16,108	42,645
MAY	120,904	59,735	15,932	45,248
JUN	124,452	60,363	17,300	46,789
JUL	125,507	60,554	17,196	47,757
AUG	125,398	60,522	17,775	47,101
SEP	125,801	60,352	18,726	46,723
OCT	127,858	60,158	18,167	49,533
NOV	127,499	58,752	19,081	49,666
DEC	131,138	58,094	20,744	52,300
1980				
JAN	133,099	56,760	20,953	55,356
FEB	129,070	54,289	21,609	53,172
MAR	119,214p	48,537p	19,152p	51,525p
APR	n.a.	n.a.	n.a.	n.a.

HOUSE SALES

(Units in thousands)

Year and Month	EXISTING HOUSES[1]	NEW HOUSES		
		Sold	Available For Sale	Months Supply at Current Rate
1979				
JAN	243	53	411	7.8
FEB	261	58	399	5.3
MAR	334	73	416	5.7
APR	333	72	417	5.7
MAY	371	69	426	6.2
JUN	344	64	420	6.6
JUL	343	66	421	6.3
AUG	377	69	419	6.1
SEP	314	62	414	6.7
OCT	329	55	416	7.6
NOV	255	41	409	10.0
DEC	197	34	403	11.8
1980				
JAN	209	43	393	9.2
FEB	220	43	372	8.9
MAR	243	42p	372p	8.9p
APR	n.a.	n.a.	n.a.	n.a.
3 months				
1980	672	128		
1979	838	184		
1978	858	195		
1977	762	209		

RESIDENTIAL STRUCTURES, BY REGION

(units in thousands)

Year and Month	PERMITS 16,000 ISSUING PLACES								STARTS							
	Actual				Seasonally Adjusted Annual Rate				Actual				Seasonally Adjusted Annual Rate			
	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West	North East	North Central	South	West
1979																
JAN	10	8	35	29	189	198	500	437	8	7	45	28	257	258	782	430
FEB	6	10	37	31	140	229	506	446	6	7	42	29	180	213	647	429
MAR	12	25	62	42	143	294	646	448	12	26	75	40	190	368	780	462
APR	14	31	51	43	142	297	543	455	15	34	65	47	171	356	692	531
MAY	18	37	60	48	181	328	616	493	18	50	72	51	173	396	734	498
JUN	18	34	59	45	199	332	636	472	19	24	79	51	178	371	862	499
JUL	15	27	51	45	161	281	585	501	18	36	68	43	174	356	762	472
AUG	15	30	50	47	147	310	664	533	20	39	74	40	176	388	770	454
SEP	19	29	54	39	217	337	704	517	13	39	67	46	164	392	765	553
OCT	14	28	59	38	151	271	673	447	21	35	73	40	172	317	765	456
NOV	13	16	42	27	152	191	557	363	19	20	53	27	170	249	716	387
DEC	10	12	34	25	144	224	517	359	10	15	40	27	156	326	667	399
1980																
JAN	5	8	39	23	116	221	577	350	6	6	40	22	194	213	673	339
FEB	5	8	39	24	125	178	524	315	3	8	47	23	73	223	701	333
MAR	10	10	40	22	122	120	442	248	7	12	45	21	105	178	511	247
APR	8p	13p	38p	19p	87p	123p	396p	194p	9p	15p	48p	22p	128p	161p	486p	244p
3 months																
1980	20	26	118	69					16	26	132	66				
1979	28	43	134	102					26	40	162	97				
1978	28	58	135	121					19	55	172	116				
1977	31	59	118	122					24	58	160	126				

CONSTRUCTION STATUS

(units in thousands)

Year and Month	UNDER CONSTRUCTION			COMPLETIONS		
	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1979						
JAN	1,270	813	457	129	100	29
FEB	1,223	776	447	126	97	29
MAR	1,216	777	439	149	113	36
APR	1,228	793	435	142	111	31
MAY	1,259	831	428	156	113	43
JUN	1,283	837	446	166	130	36
JUL	1,300	852	448	151	116	35
AUG	1,301	860	441	159	123	36
SEP	1,283	850	433	181	125	56
OCT	1,274	837	437	174	135	39
NOV	1,226	794	432	165	121	44
DEC	1,140	717	423	174	139	35
1980						
JAN	1,088	678	410	125	94	31
FEB	1,041	644	397	126	89	37
MAR	998p	613p	385p	130p	96p	40p
APR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
3 months						
1980				381	273	108
1979				404	310	94
1978				375	295	80
1977				334	265	69

INTEREST RATES AND YIELDS

Year and Month	1-4 UNIT MORTGAGES					APARTMENTS[2]	CONSTRUCTION LOANS[3] ALL TYPES	FNMA		GNMA Current Securities Yield[4]	SELECTED SECURITIES				SPREADS (Basis Points)	
	FHA Opinion Survey			FHLBB Survey				FMS Auction Yields on 4 mo. Commitments[5]			Aaa Utility New Issue	U.S. Gov't		Prime Commercial Paper 90-119 Days	FHA New Minus Aaa Utility	GNMA minus 10-yr Gov't
	FHA New[1]	Conventional		Conventional				FHA/VA	Conv.			10-yr	26-wk			
		New	Existing	New	Existing											
1978																
DEC	10.16	10.30	10.30	10.02	10.08	9.875-10.125		10.508	10.825	9.61	9.28	9.01	9.397	10.37	88	60
1979																
JAN	10.17	10.30	10.30	10.18	10.33	10.125-10.250		10.693	11.060	9.70	9.54	9.10	9.501	10.25	63	60
FEB	10.17	10.35	10.35	10.18	10.36	10.125-10.250	11.79	10.506	11.040	9.68	9.53	9.10	9.349	9.95	64	60
MAR	10.19	10.35	10.40	10.32	10.47	10.125-10.375		10.423	10.932	9.73	9.62	9.12	9.458	9.90	57	61
APR	n.a.	10.55	10.55	10.34	10.54	10.125-10.375		10.645	11.035	9.86	9.70	9.18	9.490	9.85	n.a.	68
MAY	10.61	10.80	10.80	10.47	10.60	10.250-10.500	12.23	10.847	11.357	10.02	9.83	9.23	9.531	9.94	78	79
JUN	10.49	10.90	10.90	10.66	10.71	10.250-10.625		10.773	11.560	9.81	9.50	8.91	9.062	9.76	99	90
JUL	10.46	10.95	11.00	10.78	10.93	10.250-10.625		10.652	11.521	9.81	9.59	8.95	9.236	9.87	87	86
AUG	10.58	11.10	11.15	11.01	11.14	10.375-10.625	12.52	10.671	11.517	9.97	9.48	8.99	9.425	10.27	110	98
SEP	11.37	11.35	11.35	11.02	11.20	10.625-10.875		11.091	11.741	10.40	9.83	9.33	10.203	11.63	154	107
OCT	n.a.	12.15	12.20	11.18	11.30	11.250-11.500		12.497	12.865	11.30	10.97	10.30	11.660	13.23	n.a.	100
NOV	12.41	12.50	12.50	11.37	11.52	11.500-12.000	15.56	12.797	13.794	11.58	11.42	10.65	11.856	13.57	98	93
DEC	12.24	12.50	12.50	11.64	11.89	11.875-12.000		12.485	12.981	11.56	11.25	10.39	11.847	13.24	99	117
1980																
JAN	12.60	12.80	12.80	11.87	12.10	11.875-12.250		12.930	13.188	11.96	11.73	10.80	11.851	13.04	87	116
FEB	n.a.	14.10	14.10	11.93	12.62	13.000-14.000	15.77	14.589	14.124	13.02	13.57	12.41	12.721	13.78	n.a.	61
MAR	14.63	16.05	16.05	12.62	12.87	n.a.		15.581	16.665	13.69	14.00	12.75	15.100	16.81	63	94

LONG-TERM MORTGAGE LOANS CLOSED

(Dollars in Millions)

Year and Month	BY TYPE OF INSTITUTION					BY TYPE OF UNIT AND INSTITUTION														
						1-4 Units					5+ Units					Nonresidential				
	Total	Mtg. Bankers	S&Ls	Banks[5]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[5]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[5]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[5]	Life Cos.
1978																				
OCT	18,238	4,670	6,205	6,273	1,090	13,902	3,850	5,860	4,129	63	694	70	217	223	184	3,642	750	128	1,921	843
NOV	18,204	4,280	5,895	6,837	1,192	13,844	3,720	5,582	4,442	100	769	170	193	266	140	3,591	390	120	2,129	952
DEC	19,905	5,670	5,269	6,567	2,399	13,371	3,790	4,913	4,440	228	1,184	200	204	365	335	5,430	1,680	152	1,762	1,836
1979																				
JAN	14,599	4,080	4,080	5,740	699	11,016	3,640	3,779	3,530	67	677	120	182	278	97	2,906	320	119	1,932	535
FEB	12,072	3,560	3,419	4,245	848	8,901	2,840	3,181	2,797	83	522	50	141	184	147	2,649	670	97	1,264	618
MAR	14,051	3,340	4,716	4,818	1,157	10,729	2,890	4,433	3,322	84	709	150	167	286	106	2,593	300	116	1,210	967
APR	15,061	3,810	5,386	4,892	973	11,699	3,040	5,115	3,400	144	873	350	165	238	120	2,489	420	106	1,254	709
MAY	17,183	3,910	6,671	5,616	986	13,819	3,396	6,316	4,050	57	567	65	231	213	58	2,797	449	124	1,353	871
JUN	19,899	4,263	7,209	7,120	1,307	16,005	3,754	6,848	5,246	107	879	199	208	225	247	3,065	310	153	1,649	953
JUL	19,368	4,852	6,111	7,169	1,236	15,412	4,238	5,815	5,237	126	771	232	177	269	93	3,185	382	123	1,663	1,017
AUG	20,200	5,735	6,587	6,661	1,237	16,625	5,066	6,304	5,041	214	787	144	156	338	149	2,808	525	127	1,282	874
SEP	18,188	5,532	5,507	5,706	1,443	14,088	4,681	5,191	3,978	238	847	331	180	265	171	3,153	520	136	1,463	1,034
OCT	20,011	5,554	6,223	6,729	1,505	16,009	5,026	5,916	4,847	220	583	56	184	192	151	3,419	472	123	1,690	1,134
NOV	17,252	4,678	4,968	6,175	1,431	13,107	3,873	4,724	4,260	250	613	138	130	223	122	3,532	667	114	1,692	1,059
DEC	14,311	4,508	3,304	5,018	1,461	10,420	3,543	3,112	3,338	427	596	109	75	251	141	3,295	856	117	1,429	893
1980																				
JAN	11,249p	3,374p	2,399p	4,073	1,403p	8,159p	3,048p	2,240p	2,703p	168p	397p	23p	76p	204p	94p	2,693p	303p	83p	1,166p	1,141p

LONG-TERM COMMITMENT ACTIVITY

(Dollars in Millions)

Year and Month	OUTSTANDING					ISSUED DURING MONTH				
	Total	Mtg. Bankers	S&Ls	Banks[5]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[5]	Life Cos.
1978										
SEP	74,316	16,170	21,648	13,293	23,205	17,568	4,280	8,163	3,415	1,710
OCT	75,247	16,570	21,503	13,545	23,629	19,065	5,450	8,594	3,081	1,940
NOV	74,594	17,270	20,738	12,393	24,193	17,272	4,300	7,813	3,009	2,150
DEC	72,426	17,300	18,911	12,029	24,186	16,155	4,830	6,167	2,475	2,683
1979										
JAN	71,434	17,320	18,053	11,271	24,790	13,865	4,050	5,478	2,362	1,975
FEB	72,130	16,490	19,038	11,637	24,965	13,580	3,630	6,076	2,234	1,640
MAR	75,593	17,430	21,085	11,549	25,529	17,520	3,900	8,713	2,525	2,382
APR	76,264	14,860	22,923	12,169	26,312	19,030	4,020	9,493	3,257	2,260
MAY	80,544	15,855	23,569	13,127	27,993	21,326	4,630	10,387	3,745	3,164
JUN	79,826	14,831	22,777	13,139	29,079	19,527	3,823	9,033	3,795	2,906
JUL	81,240	16,291	22,366	12,899	29,684	18,343	4,464	8,167	3,215	2,497
AUG	85,197	19,317	22,282	13,329	30,269	21,140	6,608	8,852	3,305	2,375
SEP	87,063	21,553	22,397	12,027	31,086	18,098	5,203	7,730	2,489	2,676
OCT	80,082	16,335	20,930	11,575	31,242	18,010	4,858	7,992	2,889	2,271
NOV	75,796	15,875	18,029	11,346	30,546	12,819	3,967	4,741	2,416	1,695
DEC	70,234	14,745	16,007	10,556	28,926	9,277	3,222	3,248	1,912	895
1980										
JAN	66,090p	14,371p	15,559p	9,031p	27,129p	9,464p	3,710p	3,510p	1,614p	630p

MORTGAGE INSURANCE

(Units in thousands; dollars in millions)

Year and Month	APPLICATIONS RECEIVED UNITS			INSURED							
	FHA			Total		FHA (203)		VA		Private	
	Total	VA	Private	Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1978											
SEP	138	73	65	102	3,949	18	584	22	881	62	2,484
OCT	188	122	66	131	4,931	40	1,279	28	1,179	63	2,473
NOV	152	94	58	121	4,002	17	574	27	1,116	77	2,312
DEC	121	72	49	93	3,805	11	388	28	1,177	54	2,240
1979											
JAN	118	79	39	109	4,393	29	963	33	1,419	47	2,011
FEB	114	74	40	93	3,861	27	936	31	1,367	35	1,558
MAR	157	102	55	98	4,023	25	855	32	1,415	41	1,753
APR	169	106	63	90	3,741	19	665	24	1,075	47	2,001
MAY	185	116	69	102	4,246	23	806	24	1,082	55	2,358
JUN	166	103	63	103	4,338	24	846	24	1,096	55	2,396
JUL	170	112	58	117	4,996	29	1,058	31	1,423	57	2,515
AUG	177	118	59	116	5,042	25	912	35	1,695	56	2,435
SEP	150	100	50	104	4,646	20	744	39	1,910	45	1,992
OCT	155	98	57	104	4,580	29	1,092	22	1,100	53	2,388
NOV	116	76	40	102	4,493	27	1,004	29	1,391	46	2,098
DEC	79	50	29	91	4,117	20	769	31	1,531	40	1,817
1980											
JAN	96	66	24	100	4,534	31	1,142	39	1,956	30	1,436

SECONDARY MARKET ACTIVITY

(Dollars in Millions)

Year and Month	FNMA					FHLMC			GNMA	
	4-Month Commitments				12 Month Convert Standby	Comm.	Purc.	Sold	Pass-Through Securities	
	FHA VA		Conventional						Applications	Issued
	Bid	Accept.	Bid	Accept						
1978										
DEC	627	320	417	221	319	290	598	340	3,295	1,381
1979										
JAN	305	155	114	58	132	327	498	321	2,925	1,426
FEB	211	161	63	45	89	295	401	291	2,892	1,304
MAR	508	284	145	114	71	427	350	116	2,680	1,453
APR	1,323	638	662	364	517	492	358	363	5,907	1,488
MAY	426	185	459	214	503	601	560	572	3,089	1,673
JUN	220	100	358	195	277	462	447	182	3,621	1,860
JUL	133	70	94	70	160	517	518	320	6,231	2,032
AUG	162	83	246	184	184	581	636	384	5,105	2,933
SEP	1,421	600	527	326	343	437	537	347	4,012	2,640
OCT	29,943	1,130	1,050	431	828	504	552	531	6,509	2,639
NOV	558	265	366	190	0	221	458	186	7,410	3,250
DEC	649	249	413	152	0	199	403	211	3,539	1,894
1980										
JAN	516	232	443	247	26	296	279	180	4,265	2,611
FEB	1,169	564	412	148	225	197	248	207	2,178	1,354
MAR	1,267	426	919	240	242	186	193	106	5,124	1,125

MORTGAGE BANKERS CONSTRUCTION AND LAND LOAN ACTIVITY

(Dollars in Millions)

Year and Month	DISBURSEMENTS DURING MONTH					OUTSTANDING COMMITMENTS TO BORROWERS			
	Construction				Land Loans				
	Total	1-4 Units	5+ Units	Nonres.		Total	1-4 Units	5+ Units	Nonres.
1978									
DEC	620	270	180	170	40	4,190	1,550	1,130	1,510
1979									
JAN	550	250	100	200	50	4,480	1,700	1,140	1,560
FEB	420	230	80	110	30	4,130	1,640	960	1,530
MAR	470	280	80	110	40	4,620	1,700	1,150	1,770
APR	570	300	120	150	50	4,250	1,610	1,230	1,410
MAY	560	330	100	130	60	3,910	1,820	740	1,350
JUN	700	450	110	140	50	4,460	2,060	1,120	1,280
JUL	594	312	121	161	59	4,010	1,870	870	1,270
AUG	734	339	151	244	81	4,553	2,072	1,069	1,412
SEP	723	312	86	325	152	4,897	2,101	679	2,117
OCT	784	307	106	371	45	4,487	1,636	1,224	1,627
NOV	640	248	144	248	44	4,632	1,608	1,344	1,680
DEC	647	240	113	294	46	4,141	1,543	937	1,661
1980									
JAN	603p	233p	100p	270p	20p	4,581p	1,644p	1,249	1,688p
FEB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MAR	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

n.a.–Not available; p–Preliminary.

[1]From the National Association of Realtors' "Existing Home Sales" series.

[2]Reflects cumulative total through the latest month for each column.

[3]Secondary market gross yields.

[4]Benchmark rates, Citicorp Real Estate, Inc.

[5]Federal Reserve's weighted average interest rate for Commercial Banks.

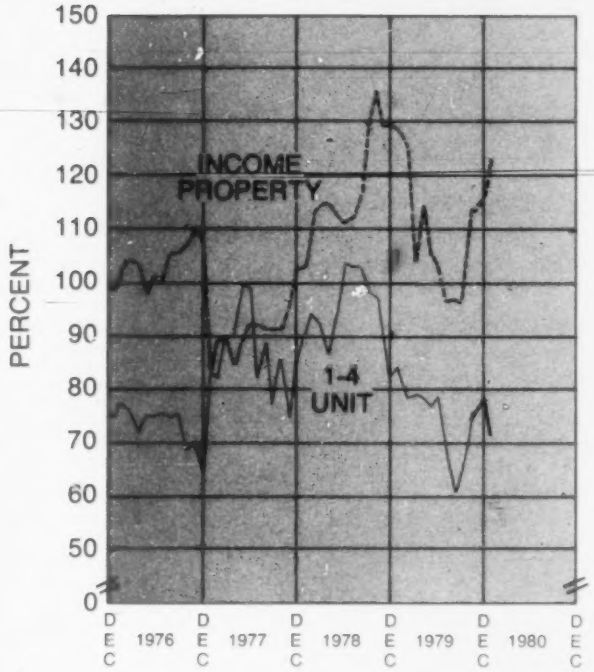
[6]Weighted average gross yields for accepted bids.

[7]Survey of three New York security dealers. Securities for immediate delivery.

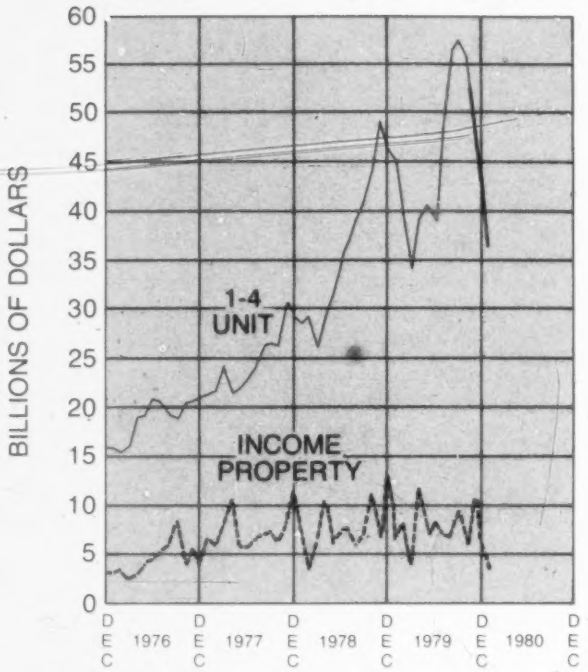
[8]Mutual Savings Banks and Commercial Banks.

Sources: American Council of Life Insurance, Board of Governors of the Federal Reserve System, Bureau of the Census, Citicorp Real Estate, Inc., Department of Housing and Urban Development, Federal Home Loan Bank Board, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Government National Mortgage Association, Mortgage Bankers Association of America, National Association of Mutual Savings Banks, National Association of Realtors, Veterans Administration.

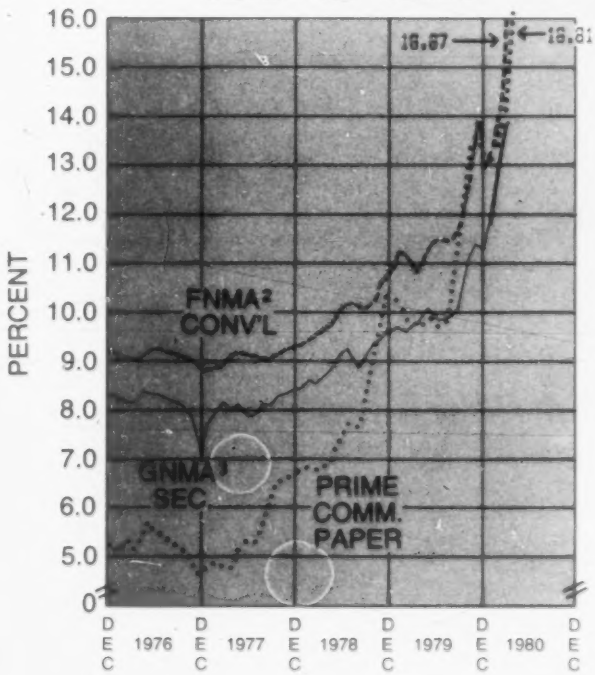
MORTGAGE BANKERS' LONG-TERM MORTGAGE COVERAGE[1]



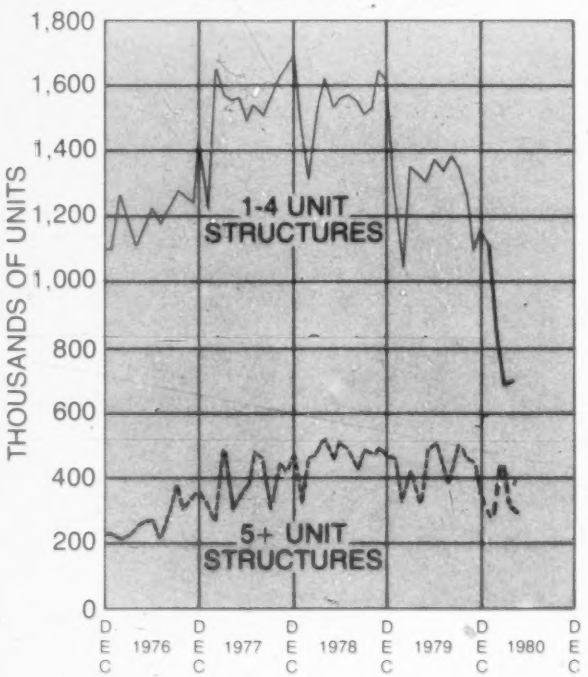
MORTGAGE BANKERS' LONG-TERM MORTGAGE LOANS CLOSED[4]



SELECTED YIELDS



HOUSING STARTS[4]



FOOTNOTES

1. OUTSTANDING LONG-TERM COMMITMENTS RECEIVED FROM INVESTORS DIVIDED BY THE SUM OF OUTSTANDING END OF MONTH INVENTORY AND OUTSTANDING LONG-TERM COMMITMENTS ISSUED TO BORROWERS, MULTIPLIED BY 100.
2. WEIGHTED AVERAGE GROSS YIELDS FOR ACCEPTED BIDS OF ALL FNMA FREE MARKET AUCTIONS DURING THAT MONTH.
3. SURVEY OF THREE NEW YORK SECURITY DEALERS. SECURITIES FOR IMMEDIATE DELIVERY.
4. SEASONALLY ADJUSTED ANNUAL RATES.

SOURCES: BUREAU OF THE CENSUS, FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL RESERVE BOARD, MORTGAGE BANKERS ASSOCIATION.

MBA—ECONOMICS DEPARTMENT